



GUNSTON HALL

INTERNAL CONTROL QUESTIONNAIRE

REVIEW RESULTS

AS OF

JUNE 2020

Auditor of Public Accounts  
Martha S. Mavredes, CPA  
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## - TABLE OF CONTENTS -

	<u>Pages</u>
REVIEW LETTER	1-4
AGENCY RESPONSE	5-8



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# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

August 18, 2020

Scott Stroh, Director  
Gunston Hall  
10709 Gunston Road  
Mason Neck, VA 22079

## INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for **Gunston Hall**. We completed the review on June 22, 2020. The purpose of this review was to evaluate if the agency has developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. Management of Gunston Hall is responsible for establishing and maintaining an effective control environment.

### Review Process

During the review, the agency completes an Internal Control Questionnaire that covers significant organizational areas and activities including payroll and human resources; revenues and expenses; procurement and contract management; capital assets; grants management; debt; and information technology and security. The questionnaire focuses on key controls over these areas and activities.

We review the agency responses and supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depend on our judgment in assessing the likelihood that the controls may fail to prevent and/or detect events that could prevent the achievement of the control objectives. The procedures performed target risks or business functions deemed significant and involve reviewing internal policies and procedures. Depending on the results of our initial procedures, we may perform additional procedures including reviewing evidence to ascertain that select transactions are executed in accordance with the policies and procedures and conducting inquiries with management. The "Review Procedures" section below details the procedures performed for Gunston Hall. The results of this review will be included within our risk analysis process for the upcoming year in determining which agencies we will audit.

## **Review Procedures**

We evaluated the agency's corrective action for all prior review findings. We determined that although some progress has been made, corrective action is not fully complete and these findings are repeated in the "Review Results" section below.

We reviewed a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data. The definitive source for internal control in the Commonwealth is the Agency Risk Management and Internal Control Standards (ARMICS) issued by the Department of Accounts (Accounts); therefore, we also included a review of ARMICS. The level of ARMICS review performed was based on judgment and the risk assessment at each agency. At some agencies only inquiry was necessary; while others included an in-depth analysis of the quality of the Stage 1 Agency-Level Internal Control Assessment Guide, or Stage 2 Process or Transaction-Level Control Assessment ARMICS processes. Our review of Gunston Hall's ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated the agency's process of completing and submitting attachments to Accounts.

We reviewed the Internal Control Questionnaire and supporting documentation detailing policies and procedures. As a result of our review, we performed additional procedures over the following areas: payroll and human resources; revenue and expenses; and information system security. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting further review over management's risk assessment process.

As a result of these procedures, we noted areas that require management's attention. These areas are detailed in the "Review Results" section below.

## **Review Results**

We noted the following areas requiring management's attention resulting from our review:

- **Partial Repeat** - Gunston Hall does not maintain up-to-date policies and procedures, with written approval from management, for all business areas. During our review, we noted no internal policies and procedures for several key processes as well as existing policies that were lacking sufficient detail or missing key controls. Topic 20905 and other sections of the Commonwealth Accounting Policies and Procedures (CAPP) Manual state that each agency needs to "publish its own policies and procedures documents, approved in writing by agency management." Management should establish formally, documented procedures over all critical business processes in order to maintain an effective control environment.
- Gunston Hall could not provide documentation to demonstrate compliance with Accounts' ARMICS requirements. Gunston Hall did not perform an agency-level risk assessment and did not identify or assess key transaction-level or agency-level controls. Topic 10305 of the CAPP

Manual requires agencies to document, evaluate, and test all agency-level and transaction-level controls to assess each element of the control environment. Gunston Hall should perform a complete risk assessment, assess agency-level controls, and document how it identified key transaction-level controls to test in order to comply with ARMICS requirements.

- Gunston Hall did not conduct a review of the cancelled records report from the human resources system for the months selected. Topic 50410 of the CAPP Manual states that certain employers must review the cancelled records report to ensure all information was properly recorded into the retirement system. Gunston Hall should implement and document a process to review the cancelled records report.
- Gunston Hall did not pay three out of four selected vouchers by their respective due dates. Section 2.2-4350 of the Code of Virginia requires agencies to promptly pay for completely delivered goods and services by the due date on the invoice or within 30 days after receipt of goods or services. Gunston Hall should pay vendors in a timely manner to ensure compliance with the Code of Virginia.
- Gunston Hall could not provide evidence to show that a selected employee completed the required Statement of Economic Interest training in a timely manner. Chapter 31 of the Code of Virginia requires certain employees occupying positions of trust to file a disclosure statement of personal interest to the Conflict of Interest and Ethics Advisory Council and also complete a related training at least every two calendar years. This same chapter of the Code of Virginia requires agencies to keep a record of attendance to this training. Gunston Hall should ensure that all employees who fall under these requirements file statements of economic interest, complete this training regularly and maintain evidence of compliance as required.
- **Partial Repeat** - Gunston Hall did not perform a complete physical inventory of its capital assets within the required timeframe. Topic 30505 of the CAPP Manual requires agencies to perform a physical inventory of capital assets at least once every two years in order to properly safeguard assets and maintain fiscal accountability. Gunston Hall should conduct a full physical inventory count and document this practice in compliance with the CAPP Manual.
- **Partial Repeat** - Gunston Hall did not ensure all of its system users completed security awareness training. Section AT-2 of the Commonwealth's Information Security Standard, SEC 501 (Security Standard) requires agencies to provide basic security awareness training to system users annually. Gunston Hall should require the annual completion of this training by all of its system users.
- Gunston Hall's Emergency Response Plan (plan) was last revised in February of 2015. The Security Standard requires agencies to periodically review and revise the plan to reflect changes in mission essential functions, services, IT system hardware and software, and personnel. This would include changes in vendors in the case of outsourced functions.

Gunston Hall should review and revise the plan for any internal or external changes that may have occurred since its last review.

- Gunston Hall did not perform a systems user access review. The Security Standard requires the organization to review on an annual basis the privileges assigned to all users to validate the need for such privileges. Although, as a small agency, Gunston Hall has a limited number of users, this review would mitigate the risk of any unauthorized users inappropriately gaining access to the systems. Gunston Hall should conduct and document such a review in sufficient detail on an annual basis.

We discussed these matters with management on August 17, 2020. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not validate management's response and, accordingly, cannot take a position on whether or not it adequately addresses the issues in this report.

This report is intended for the information and use of management. However, it is a public record and its distribution is not limited.

Sincerely,

Martha S. Mavredes  
Auditor of Public Accounts

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HOME OF *American Rights*

August 25, 2020

The Honorable Martha Mavredes, CPA  
Auditor of Public Accounts, Commonwealth of Virginia  
101 North 14<sup>th</sup> Street, 8<sup>th</sup> Floor  
Richmond, VA 23219

Dear Ms.Mavredes:

On behalf of Gunston Hall, please accept our thanks and appreciation for the professional audit of our public funds provided by members of your team this past spring and summer. The entirety of the process was not only professional, but also collaborative, informative, and helpful. As an organization committed to transparency, integrity, and continual improvement, we very much appreciate the opportunity to benefit from the expertise and insight provided by your team and your office.

Additionally, I wanted to take this opportunity to again provide some context specific to Gunston Hall that is relevant to this audit. First, as you know, Gunston Hall is a very small Agency of the Commonwealth. Gunston Hall, however, is a large organization that is, per statute, managed by the private, non-profit Board of Regents of Gunston Hall, Inc. (BRGHI). Appointed by the Governor, the BRHGI is comprised of 43 members, all of whom are members of The National Society of The Colonial Dames of America. This governance structure, which is also codified in statute, was established pursuant to the bequest of Gunston Hall's last private owners and formally implemented upon the passing of the surviving spouse in 1949.

Based on this governance structure, Gunston Hall exists and operates as a public-private partnership. For example, funding support for the annual operation of Gunston Hall is provided by the Commonwealth of Virginia, through both general fund and non-general fund appropriations, but approximately 65% of Gunston Hall's operating revenue is provided by private sources and via quarterly draws from privately held and invested funds.

Furthermore, while Gunston Hall benefits from Commonwealth provided capital and maintenance reserve funds, the BRGHI also funds capital projects with privately raised dollars. Importantly, while we understand that the APA audit focuses exclusively on Commonwealth funds and other assets, it is worth noting that independent audits of the BRGHI's privately held assets are consistently and routinely clean.

It is also worth noting that at present, Gunston Hall only employs three full-time and seven part-time Commonwealth employees. A fourth full-time Commonwealth employee, Lena C. McAllister, retired

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GUNSTON HALL is an educational agency of the Commonwealth of Virginia governed by  
THE Board of Regents of Gunston Hall ☎ The National Society of THE Colonial Dames of America.

effective February 29<sup>th</sup> after more than 34 years of dedicated service to Gunston Hall and to the Commonwealth of Virginia. During her entire tenure, Ms. McAllister was Gunston Hall's Administrative Specialist and in that role she served as both the organization's chief financial officer and as director of human resources. Gunston Hall is proactively working to fill this essential position, but this critically important position is and remains vacant as a result of the hiring freeze.

Given Gunston Hall's governance structure and the small contingent of Commonwealth employees working at such a large and complex historic site, the BRGHI employs seven full-time and four part-time positions that are privately funded. This important investment is the only way to ensure Gunston Hall's operational effectiveness and efficiency. Within this organizational structure, Gunston Hall works intentionally and diligently to ensure that all operational and functional responsibilities are fulfilled in compliance with Commonwealth-required procedural protocols, industry best practices, and generally accepted principles. Gunston Hall has been successful in fulfilling this commitment and in recognition of this success, Gunston Hall is fully accredited by the American Alliance of Museums.

Thank you for the opportunity to share this context, which I offer only to help explain the distinctive characteristics of our operations. As such, while we appreciate this review and are dedicated to improving wherever necessary and possible, these realities do create circumstances which may make it very difficult or impossible for us to fully comply with all the specific protocols identified in the CAPP Manual and to implement certain of your recommendations.

We do believe, however, that we have established protocols in place to mitigate this risk. Among other measures, as Executive Director/Agency Head, I am intimately and directly involved in the control process. For example, I personally approve all purchases, payments, and hires. I also review financial statements and reconciliations on a monthly basis, and I open and review all bank and investment statements prior to processing. The BRGHI is also actively involved in our financial operations and they are regularly advised of significant outlays and plans. Any expenditure over \$3,000 must also be approved by the Board. All that said, we remain eager and committed to strengthening our controls and we value your assistance and support as we do so.

In response to the Results Letter dated August 18, 2020, we are pleased to provide the following response:

#### Policies and Procedures

We agree that a stronger and more comprehensive policies and procedures manual specific to Gunston Hall is needed. The former Administrative Specialist was with the agency for 34 years and was responsible for performing many of these functions subject to the Executive Director's, and in certain circumstances the Board's, review and approval. Since this position remains vacant, we are currently working with a contract accountant to improve our internal policies and procedures manual.

I offer the following in response to your specific observations:

- New or revised policies are approved by the Board and such approvals are documented both in the minutes of the meeting and within the policy itself.
- In conjunction with the FY20 year-end close, we are documenting the procedure for the preparation and review of attachments sent to the Department of Accounts.

- Due to our size and the limited number of total purchases, Gunston Hall does not use purchase orders or receiving reports. For non-capital expenditures, staff submits a request to the Executive Director for approval. Once approved, the purchase is made. The Executive Director approves all expenditures under \$3,000 and reports these expenditures to the First Regent and Board. The Board of Regents approves all expenditures over \$3,000.
- Gunston Hall follows the Commonwealth's prescribed procedures for contract procurement and management.
- Fixed assets at Gunston Hall consist primarily of building improvements and installed equipment such as HVAC and other mechanical systems. These outlays are managed by the Executive Director and tracked against the approved contract by the accountant. We are currently developing a written capitalization policy and procedures with regard to FAACS.
- As noted, Gunston Hall does not use purchase orders or receiving reports. Vendor invoices are approved by the person receiving the goods and the Executive Director.
- Gunston Hall does not have access to the Commonwealth's bank account holding its state funds. Bank and investment accounts held by The Board of Regents of Gunston Hall, The Gunston Hall Foundation, and the Gunston Hall Collections Fund are reconciled on a monthly basis.
- We have a very limited number of system users and agree an annual review of user accesses should be performed.
- We are developing written procedures around payroll processing and reconciliation.

#### Agency Risk Management and Internal Control Standards (ARMICS)

Gunston Hall has very limited resources. We have investigated engaging an external consultant to perform a risk assessment and to develop the underlying tools with which to monitor risk on an ongoing basis. The estimated cost for such a project is prohibitive, especially as we struggle with anticipated budget cuts by the Commonwealth. We will investigate the potential of the Commonwealth, as our insurance provider, assisting us in this regard.

#### Payroll and Human Resources

Changes in Gunston Hall's Commonwealth workforce are rare. Changes are reviewed when they occur. We agree we should document these processes in writing.

#### Expenses

We are in the process of streamlining our invoice processing which will improve the timeliness of the associated payments.

#### Procurement and Contract Management

We were unaware this training was a bi-annual requirement and the selected employee immediately completed this training once made aware of this need. We are also creating systems for the purpose of ensuring all employees comply with the various training requirements of the Commonwealth.

#### Capital Assets

Gunston Hall's primary capital assets are comprised of building improvements and installed equipment such as HVAC and other mechanical systems. There are very few assets that would be subject to theft or

loss. We are, however, currently drafting procedures to better maintain our FAACS and will incorporate the inventory requirements.

#### Information Security

As noted above, we are presently implementing systems to facilitate and track the various training requirements to ensure that all employees are compliant.

Most of our users have access only to email. That said, we agree a systems user access review should be done at least annually.

We agree our Emergency Response Plan would benefit from review and updating, most particularly in the area of information systems.

#### Final Letter

Please send the final letter to me at the following address:

Scott Muir Stroh III, Executive Director and Agency Head  
George Mason's Gunston Hall  
10709 Gunston Road  
Mason Neck, VA 22079

In conclusion, please again accept our thanks and appreciation for a professionally conducted audit and for the insights gained through this process. As noted, Gunston Hall has already begun implementing many of the recommended actions and is committed to achieving the fulfillment of the remaining recommendations very soon.

Sincerely,

  
Scott Muir Stroh III  
Executive Director